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¶1. (SBU) Introduction: The purpose of this newsletter, initiated in January 2004, is to highlight minerals and energy developments in South Africa. This includes trade and investment as well as supply. South Africa hosts world-class deposits of gold, diamonds, platinum group metals, chromium, zinc, titanium, vanadium, iron, manganese, antimony, vermiculite, zircon, alumino-silicates, fluorspar and phosphate rock, and is a major exporter of steam coal. South Africa is also a leading producer and exporter of ferroalloys of chromium, vanadium, and manganese. The information contained in the newsletters is based on public sources and does not reflect the views of the United States Government. End introduction.

HOT NEWS

Fire Closes Engen Refinery - Fuel Imported

¶2. (SBU) Some Engen fuel refiner and retailer will import refined oil and oil products after a fire caused by a mechanical problem destroyed the main processing unit at its South African crude oil refinery in Durban, the country's second largest. Engen said the 135,000 barrels-per-day refinery would be shut for months of repairs caused by a fire on November 12. A spokesman said the fire destroyed 50,000 liters of crude and the shutdown would force it to import refined oil and oil products for the period of closure. Engen is South Africa's biggest supplier of oil and related products with a market share of about 26%. Engen is 80% owned by Malaysia's state firm Petronas and the rest is held by South African black-owned Worldwide African Investment Holdings empowerment group. This is the second fire to affect the Engen refinery this year. The first fire was caused by lightning and destroyed a refined products storage tank. The refinery General Manager Willem Oosthuizen said the company would sustain a daily financial loss of more than $600,000 each day it remains closed.

Fire Closes Anglo Platinum Smelter

¶3. (SBU) Anglo Platinum confirmed that a fire had occurred at its Polokwane platinum smelter, located in the northern Limpopo Province of South Africa, on November 5. A furnace run-out occurred in the morning causing hot matte to come into contact with rain water. The smelter will be shut down for about six weeks at an estimated loss to Anglo of 150,000-200,000 ounces of refined platinum. A statement by Anglo says that their remaining smelting and refining capacity is fully committed and that losses associated with the shut down would not be recovered during 2008, but only during the first half of
¶2009. At current platinum prices of about $820 per ounce, loss of export earnings would amount to $123-164 million or less than 2% of total PGM revenues and 0.5% of total mineral revenues.

U.S. Soda Ash Cartel Fined

¶4. (SBU) The South African Competition Commission has claimed
Q4. (SBU) The South African Competition Commission has claimed
victory in a nine-year old dispute with the U.S. industry body the American Natural Soda Ash Corporation
(Ansac), according to media reports. Ansac represents four major U.S. producers of soda ash and was accused of organizing an export cartel in the South African market. U.S. law allows such a body to operate in markets outside the U.S., but is prohibited from operating in the U.S. as this would contravene U.S. anti-trust laws. Ansac has effectively admitted fixing prices on soda ash by eliminated price competition between its members in exports sales in contravention of the South African Competition Act. Ansac has agreed to withdraw from the Southern African market and allow its members to operate individually in South Africa. Its settlement with the commission brings to an end the longest-running case in the commission's history. Ansac will pay a nominal $1 million fine, equal to 8% of its annual turnover in South Africa. It also agreed

to pay the legal expenses of Botswana soda ash producer Botswana Ash (Botash), which brought the initial complaint. Ansac's legal team opines that its withdrawal from the South African market is strategic and cannot be construed as an admission of anticompetitive behavior. South African experts believe Ansac was let off lightly and that the judgment failed to distinguish between the actions of an illegal cartel and those of a legitimate joint venture.

MINING

Falling Commodity Prices Knock SA Revenue

¶5. (SBU) South Africa is facing falling commodity prices and decreasing global demand for its minerals and processed downstream products. South African gold output fell 17.7% in volume terms, while overall mineral production was down 3.5%, in September compared to the same month in the previous year, according to Statistics South Africa. Global steelmaker ArcelorMittal has announced a 30% production cutback at its local steel plants, in line with cutbacks at its facilities worldwide. However, Anglo American's Kumba Iron Ore claims that it will not curb its high-quality ore production, unlike other global producers like Brazil's Vale which announced cutbacks of 10-20% in response to lower Chinese demand. Kumba has said it intends to continue with its 13 million tons per year expansion plans according to schedule. Ferro-chrome producers are facing significant cutbacks and the world's biggest producers, Xstrata-Merafe and Samancor have already announced cutbacks of 30% and 50%, respectively. An analyst has calculated that ferro-chrome and iron ore reductions alone could reduce South Africa's export revenues by $6 billion per annum, equivalent to losing more than one month's exports. He notes that the affect on South Africa's current account will be somewhat mitigated by reduced cost of oil imports and reduced demand for other imports. Power demand should also decrease.

Mine Job Losses at Lonmin Platinum

¶6. (SBU) The world's third-largest platinum mining firm Lonmin plans to close some of its South African platinum mines and halt two key projects because of a 64% fall in the platinum price since March. This would result in as many as 21,000 layoffs of people employed by or dependent on income from platinum mining. Standard Bank economist Johan Botha said each worker in the mining industry has an average of eight dependents and each job in mining provides at least 12 jobs upstream in supplier industries such as power, water, and mining equipment. He also said further jobs would be lost in the downstream markets that used platinum group metals (PGMs) produced by Lonmin. Econometrix Treasury Management economist George Glynos said the cuts would reduce employment in rural areas near the company's mines and this would have a disastrous socio-economic impact in some regions. The closures compound the unemployment situation in the wake of recent cuts by major producers of steel,
Qsituation in the wake of recent cuts by major producers of steel,
iron ore, and ferrochrome. The platinum industry generated $10.5 billion revenue in 2007 and employed 186,410 workers.

Disruptions Cut Platinum Output

¶7. (SBU) South Africa's platinum export earnings will be constrained by a decline in output this year to a five-year low of 4.78 million ounces. This is due to power cuts, safety issues, mine flooding, smelter problems, skills shortages, labor stoppages and other factors, according to UK refiner and catalytic converter maker Johnson Matthey (JM). JM forecast that: the world platinum market would be 240,000 ounces short this year, mainly due to falling South African output; that global supply would fall 4.2% to 6.28 million ounces; and that demand would dip 2.3% to 6.52 million ounces. JM also forecast Russian platinum production to decline by 855,000

ounces this year and North American and Zimbabwean output to rise. Demand for platinum used in automotive catalytic converters was forecast to grow by 85,000 ounces to 4.23 million ounces this year, driven by increasing use of platinum in diesel vehicles in Europe and growing vehicle output in China and other developing nations. North American demand for platinum was expected to fall by 305,000 ounces as vehicle production is being curtailed in that region. The net purchase of new metal by jewelry manufacturers was forecast to fall by 340,000 ounces to 1.12 million ounces.

DRC Copper Plant Construction Halted

¶8. (SBU) Copper-miner Anvil Mining has suspended construction at its Kinsevere Stage II solvent extraction/electro-winning (SX/EW) plant in the DRC until the company arranges additional funding and the global financial and commodity markets stabilize. Copper and cobalt prices have plummeted some 50% and 66%, respectively, since September and the company faces a "difficult" financial position, said an Anvil official. He said there is limited availability of debt finance for mining companies in the current environment. Nevertheless, the company was in discussion with a number of possible lenders and expected that debt finance could be available in the first half of 2009. In the meantime, Anvil plans to curtail all but essential capital spending. Anvil posted a net loss for the third quarter of $17.3 million, compared to a profit of $39.1 million for the same quarter in the previous year. Concentrate sales for the quarter declined 44% year-on-year to $42.3 million, due to operational difficulties.

Six Ferro-Alloy Furnaces Shut Down

¶9. (SBU) The world's largest ferrochrome producer Xstrata-Merafe

Resources joint venture halted six of its ferrochrome furnaces in South Africa, in reaction to slowing global demand that has also forced a 30% cut in steel production. The six furnaces represent 500,000 tons or 29% of its annual ferrochrome production. Ferrochrome is used mainly in the production of stainless steel. Xstrata said these measures were temporary and it expected to redeploy personnel within its operations. Xstrata also announced that the closures of the highest-cost furnaces would result in energy savings of 300-400 MW of power, thereby contributing to easing the power crisis. This represents about 10% of Eskom's savings reduction target, or close to 1% of total production capacity.

Titanium Designated a Strategic Mineral

¶10. (SBU) South Africa is the second biggest producer of titanium, after Australia, and hosts the second largest reserves of titanium minerals, after China. South African titanium concentrates are produced at two operations mining extensive beach sands located along the east coast in Kwazulu/Natal and along the west coast north of Saldanha Bay. A new mine, Xolobeni, located on the southern Qof Saldanha Bay. A new mine, Xolobeni, located on the southern coast of the Eastern Cape, is currently under negotiation. The SAG has designated titanium strategic to economic development because of its unique industrial properties around which it intends to develop an industry - from ore to pigment, metal, and manufactured products. The Department of Science and Technology's (DST) Advanced Metals Initiative group organized a conference November 18-20 to promote R&D, innovation, technology, and skills in titanium and other "new" metals such as zirconium, hafnium, and tantalum.

¶11. (SBU) Some 94% of titanium minerals are converted to pigment because of its opacity, inertness and non-toxicity, which gives "whiteness" to paint, plastics, and paper and confidence in use in foods and pharmaceuticals (tooth-pastes, sun-screens, and cosmetics). Approximately 5% is converted to metal, which has a high strength-to-weight ratio, exhibits corrosion-resistance, has high-temperature heat strength, and is consumed primarily in the commercial and military aerospace industries and for artificial

prostheses. Chamber of Mines Economist Roger Baxter pointed out in the opening address that South Africa should be cautious when embarking on an added-value initiative. He said that manufacturing differed from mining in that it depended on policies, skills, and technology, rather than natural mineral endowment, to provide a competitive advantage in the global market. Moreover, South Africa has a major shortage of skills throughout the economy.

SA Gold Miner Closes Zimbabwe Mines

¶12. (SBU) Zimbabwe's biggest gold miner Metallon Gold, owned by South African mining entrepreneur Mzi Khumalo, has been forced to close its five gold mines because the Reserve Bank of Zimbabwe has not paid for the $20 million worth of gold delivered to it, as required by law. The Bank owes the gold sector a total of some $30 million dating back to 2007, and this has crippled the industry's ability to continue operations. In an economic climate where interest rates are 9,500 percent and the official inflation rate is 230-million percent, borrowing money is not a viable option and foreign investment has all but dried up. Metallon produced about 55% of Zimbabwe's gold output in 2007 and its closure will result in the loss of 3,500 jobs in a country where unemployment is already more than 80%. Zimbabwe's annual gold production has plummeted from 27 tons in 1999 to the current annualized 3.2 tons as a result of power cuts, lack of foreign exchange, and the exodus of skilled expatriates. Zimbabwe was Africa's third biggest gold producer after South Africa and Ghana until 2000. It has since been surpassed by Tanzania and Mali, which enjoy political and investor-friendly environments.

¶13. (SBU) On a more positive note, South African government-owned

Industrial Development Corporation (IDC) Mining Strategic Business Unit (SBU) Head Abel Malinga said the IDC along with some private mining companies is considering investing in mining projects in Zimbabwe. Malinga estimates Zimbabwe's coking coal reserves to be 50 billion tons, comparable in size to the trans-South Africa/Botswana-border steam coal reserves of the Waterberg coalfield. In addition, Zimbabwe has known, under-developed reserves of gold, platinum, iron ore, chrome, tin, lithium, copper, zinc and nickel. However, their exploitation will depend on a positive outcome to the power-sharing talks between Robert Mugabe and his Zanu-PF party and Morgan Tsvangirai and his Movement for Democratic Change (MDC). The MDC won the country's March 2008 primary elections and withdrew from the subsequent run-off election under protest. An IDC policy requirement is that investments must be covered for political risk, but not even the SAG-backed Export Credit Insurance Corporation is able to offer this cover, Malinga said.

ENERGY

Possible Nuclear Program Delay

¶14. (SBU) The decision to select a successful bidder and proceed
Q14. (SBU) The decision to select a successful bidder and proceed
with South Africa's nuclear build program seems certain to again be postponed, after being postponed twice already this year. The problem revolves around raising money to pay for the system under the current turbulent economic climate, made worse by the downgrading of the investment standing of state-owned power producer Eskom. Moody's Investors Service recently downgraded Eskom to a Baa2, its second-lowest investment grade. Department of Minerals and Energy (DME) Acting DDG of Hydrocarbons and Energy Planning Tseliso Maqubela, speaking at the conference on Energy in Southern Africa, said the DME would publish its revised Nuclear Energy Policy soon. He said that nuclear energy required substantial up-front investment and decisions made in this regard were difficult, even in the best of economic climates. Another speaker, French nuclear company Areva Plant Business Development Manager Dr. Yves Guenon said there would be tangible benefits for South Africa and its

intention to create a manufacturing industry around nuclear if Eskom makes a firm commitment to build the new nuclear reactor this year. Areva and Toshiba's Westinghouse of the US have both submitted bids to build Eskom's Nuclear-1 power plant, which would be a new generation pressurized water reactor (PWR) with a capacity of between 3,200 and 3,500 MW.

Eskom Accused of Meddling in Economic Policy

¶15. (SBU) Chamber of Mines (COM) President and Xstrata CEO Sipho Nkosi has accused state-owned power company Eskom of meddling in national economic policy. He said its actions caused the mining industry to lose an estimated $1.6 billion of production, wiped $11-12 billion from the value of mining equities in just one week in January, and severely compromised mine safety. He also accused Eskom of making decisions that impacted national economic policy that was the prerogative of the SAG. The COM has demanded that a protocol be developed to handle power supply emergencies and prevent Eskom from unilaterally taking policy decisions in the future. Nkosi also accused Eskom of treating miners as a "soft target" in its drive to reduce power supplies. In response, Eskom spokesman Fani Zulu said the utility hoped for a "ground-breaking result" in the development of the proposed protocol and justified the nationwide power cuts in January due to the necessity to prevent a total system collapse.

¶16. (SBU) Nkosi wants a protocol drafted and signed into legislation immediately to ensure Eskom does not usurp state policy powers. The

proposed protocol would rank customers according to their contribution to the economy, with the major contributors only having power cuts as a last resort. He said the mining sector was of major importance in regard to foreign currency earnings and employment, but was being forced to bear the brunt of the electricity crisis. Nkosi was also critical of new provisions in the Mine Health and Safety Amendment Bill awaiting the approval of the National Council of Provinces, which legal experts had concluded were unconstitutional. These provisions related to a new section that made it obligatory for an inspector of mines to close down a mine site following a death, serious injury or illness. Another provision made it a criminal offence for an employer, chief executive officer or employee to fail to comply with the proposed act.

BOST